

TEXAS DEPARTMENT OF AGRICULTURE

Fiscal Year 2014 Internal Audit Annual Report

Internal Audit Division



Texas Department of Agriculture | Commissioner Todd Staples
November 2014

TEXAS DEPARTMENT OF AGRICULTURE

TODD STAPLES
COMMISSIONER

November 1, 2014

Governor's Office of Budget, Planning and Policy
Legislative Budget Board
State Auditor's Office
Sunset Advisory Commission

As required by the Texas Internal Auditing Act, and in the format prescribed by the Texas State Auditor's Office, a report on the activity of the Texas Department of Agriculture's (TDA) Internal Audit Division is attached. This report provides an update on the assurance services, consulting services, and administrative audit activities of the Internal Audit Division. This report also contains information regarding the agency's compliance with House Bill 16, addresses the most recent external quality assurance review, and includes the approved fiscal year 2015 audit plan.

TDA's Internal Audit Division provides the agency with a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Audit work completed during the last fiscal year focused on compliance with laws and regulations, efficiency and effectiveness, information security controls, and data integrity. Recommendations were made to strengthen controls, and enhance the accountability, efficiency, and effectiveness of the agency's operations.

Please contact me at (512) 463-8251 if you need additional information.

Sincerely,

Nicole M. Campbell

Nicole M. Campbell, CIA
Director of Internal Audit

Attachment



**Texas Department of Agriculture
Fiscal Year 2014 Internal Audit Annual Report**

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**I. Compliance with House Bill 16 (Texas Government Code, Section 2102.015):
Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit
information on Internet Web site**

House Bill 16 (83rd Legislature, Regular Session) amended the Internal Auditing Act to require state agencies and institutions of higher education to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entities Internet Web site, at the time and in the manner provided by the State Auditor's Office.

The Internal Audit Division will ensure compliance with House Bill 16, by posting the approved fiscal year 2015 audit plan and the fiscal year 2014 internal audit annual report to the agency's Internet Website within 30 days of their approval. These reports can be accessed by navigating from TDA's home page to About Agency, selecting TDA Divisions, and then selecting the Office of Internal Audit (www.TexasAgriculture.gov/About/TDADivision/InternalAudit).

The bill also requires state agencies to update the posting to include a summary of actions taken by the agency to address concerns, if any, that are raised by the audit plan or annual report. Corrective actions taken by the TDA to address fiscal year 2014 internal audit recommendations are due throughout the remainder of fiscal year 2015, and are therefore, not included in this report. Internal Audit systematically tracks all unresolved internal audit findings. Once the implementation due date has been reached, Internal Audit conducts periodic follow-up audit work to validate the implementation status of the audit findings and recommendations.

II. Planned Work Related to the Proportionality of Higher Education Benefits

This section of the report was not applicable to the TDA.

III. Internal Audit Plan for Fiscal Year 2014

The fiscal year 2014 audit plan was designed to address the highest overall risk ranked areas, and included coverage of both organizational units and agency-wide processes. Consideration was also given to follow-up on prior audits, advisory services, and recurring administrative audit activities. The fiscal year 2014 audits projects considered tests of select general and application controls in accordance with state and agency information security standards. Those projects are as follows:

Audit of Livestock Shipment Operations at the Export Pens Report #14.06

An internal audit of livestock shipment operations at the Export Pen facilities to determine whether there were adequate controls to ensure that shipments were tracked, fees were collected and deposited, and that agency policies and procedures complied with state requirements.

Audit of Controls Over Purchasing Activities In Progress

An internal audit of select purchasing activities to determine whether processes were performed efficiently and effectively, and were in compliance with state regulations.

Audit of the State Office of Rural Health Program Carryover

An internal audit of select program operations to determine whether they are in compliance with applicable rules and regulations, and to determine the effectiveness of controls over expenditures/payments, policies and procedures, and grant/contractual agreements.

Follow-up on Prior Audits

Assessed the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.

Deviations from the Fiscal Year 2014 Audit Plan

Adjustments were made to the fiscal year 2014 audit plan as necessary to accommodate staff turnover, external audit and oversight activities, and changes to the agency's priorities and operations. This resulted in additional time necessary to complete audit work, and accommodate agency management requests.

- The Audit of Controls over Purchasing Activities was still in progress at year end and was carried forward to fiscal year 2015 for completion.
- The Audit of the State Office of Rural Health Programs was carried forward to the fiscal year 2015 audit plan, based on the results of the annual risk assessment.
- One management consultation project was still in progress at year end and was carried forward to fiscal year 2015 for completion.

IV. Consulting Services and Non-Audit Services Completed

The Internal Audit Division provided the following consulting and non-audit services during fiscal year 2014:

Division	Objective(s)
Agriculture and Consumer Protection	Reviewed shipment fees recorded in the database to revenue deposited and recorded in the general ledger, and reviewed the accuracy of monthly rent payments at of the export pen sites. A management letter #14.09 was issued on January 16, 2014.
Food and Nutrition	Assessed the implementation status of corrective actions taken to address recommendations resulting from the statement of account reconciliation recommendations. A management letter has not yet been issued, as this project was still in progress at year end.
Agriculture and Consumer Protection	Provided feedback and assistance regarding the agency's compliance with state and federal worker protection standards.
Food and Nutrition	Provided feedback and assistance regarding thresholds for criminal referrals to state and federal authorities.
Food and Nutrition	Provided feedback and assistance relating to maintaining and enhancing internal controls over the processes of submitting requests for federal drawdowns of funds, reconciling data, and processing payroll transactions.
Agency-wide	Coordinated presentations regarding the Uniform Grant Guidance updates, which provided agency staff with information on the upcoming changes and discussed how those changes may impact the agency.
Agency-wide	Facilitated the agency-wide self-assessment process through TeamRisk to identify key processes, internal controls, and risks.

Division	Objective(s)
Agency-wide	Coordinated information requests and management responses for external oversight activities to ensure information is provided timely, disruption to normal operating activities is minimized, and findings and recommendations are properly and completely addressed.
Agency-wide	Provided counsel, advice, facilitation, and technical assistance to management in a variety of areas.

In addition to planned audits and consulting and non-audit services, the following administrative activities were also performed during fiscal year 2014:

- Conducted the annual risk assessment using a risk-based methodology, which included gathering and analyzing information from questionnaires, internal control documents, and interviews.
- Developed the audit plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Tracked internal and external outstanding audit findings and recommendations, and trained agency staff to navigate, update implementation status, and upload supporting documentation using TeamCentral.
- Developed transition documents for the upcoming Commissioner of Agriculture to serve as a comprehensive resource for information regarding the Internal Audit Division.
- Attended on-line and instructor led training throughout the year to ensure compliance with continuing professional education requirements.
- Updated internal audit processes, policy manuals, and EWP templates to ensure compliance with applicable auditing standards.
- Participated in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum (SAIAF) quarterly meetings, to stay informed of current practices and activities relating to the internal audit profession.
- Participated in executive and senior management team meetings and workgroups in an advisory capacity to provide management with technical assistance in a variety of areas, and serve as an available resource on risk-related issues.


V. External Quality Assurance Review

An external quality assurance review was performed in November 2012 by members of the State Agency Internal Audit Forum (SAIAF). This review assessed the compliance with The Texas Internal Auditing Act (Tex. Gov't. Code Chapter 2102), the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*, and U.S. General Accounting Office *Government Auditing Standards*. The final report was issued in January 2013. The following opinion was reported to the Commissioner:

“Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Agriculture (TDA) Internal Audit Division receives a rating of **“pass”** and is in compliance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2101). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the Internal Audit function.”

The report also indicated that TDA’s Internal Audit Division is “independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely. The Division is well managed internally. The Division has effective relationships with and is well respected and supported by management. Interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency’s operations.”


Our next quality assurance review will be planned for 2016.



William H. Lawler, CPA
Director of Internal Audit
Texas Department of Motor Vehicles
SAIAF Peer Review Team Leader

2/1/13

Date



Brandon Tanous, CIA
Senior Auditor
Texas Department of Public Safety
SAIAF Peer Review Team Member

2/1/13

Date

VI. Internal Audit Plan for Fiscal Year 2015

A risk-based methodology was used to prioritize audit coverage for fiscal year 2015, and ensure timely reviews of the highest risk areas. Agency operations were analyzed based on multiple risk factors that included, but were not limited to: operating budget, involvement with grants and grant management, significant changes in organizational structure, information systems complexity, management controls, prior audits and results, executive/legislative interest, strategic priority, and potential for fraud. Input from key senior management regarding high risk areas was also incorporated into the analysis. This information was then used to determine the likelihood and impact of select risk factors, and an overall risk score was developed.

Planned audit projects for fiscal year 2015 continue to focus on the highest risk areas as identified through our risk assessment process. Each audit will also consider tests of select general and application controls in accordance with state and agency information security standards. Audit projects are listed below and include a description of the initial audit objectives and budgeted hours allocated for each.

Audit of Controls Over Purchasing Activities Program 625 budgeted hours
An internal audit of select purchasing activities to determine whether processes are performed efficiently and effectively, and are in compliance with state regulations.

Audit of the State Office of Rural Health Program 655 budgeted hours
An internal audit of select program operations to determine whether they are in compliance with applicable rules and regulations, and to determine the effectiveness of controls over expenditures/payments, policies and procedures, and grant/contractual agreements.

Audit of Controls Over Accounts Payable Activities 580 budgeted hours
An internal audit of select accounts payable activities to determine if payments are processed efficiently, accurately, and in a timely manner in accordance with the 30-day prompt payment act.

Audit of the Community Development Block Grant Program 580 budgeted hours
An internal audit of select program operations to determine whether they are in compliance with applicable rules and regulations, and to determine the effectiveness of controls over expenditures/payments, policies and procedures, and grant/contractual agreements.

Follow-up on Prior Audits

Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.

Consulting Services and Non-Audit Services

Activities as requested by management throughout the year, as permitted by internal audit resources and the Texas Internal Audit Act. These activities may address governance, risk management, or control issues. Also includes the completion of the carryover project to follow-up on the statement of account reconciliation recommendations, and facilitation of updates to each division's TeamRisk self-assessment templates to reflect current key processes, risks, as well as mitigating controls.

External Audit Coordination

Provide liaison for external audit activities, providing a single point of contact for all audits of TDA by oversight entities. Internal Audit assists management in coordinating TDA and external auditor interactions, to ensure both parties receive accurate and timely information and feedback.

Administrative Projects for Fiscal Year 2015

- Provide counsel, advice, facilitation, and technical assistance to management in a variety of areas.
- Conduct the annual risk assessment using a risk-based methodology, which included gathering and analyzing information from questionnaires, internal control documents, and interviews.
- Develop the audit plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Track internal and external outstanding audit findings and recommendations, and train agency staff to navigate, update implementation status, and upload supporting documentation using TeamCentral.
- Attend on-line and instructor led training throughout the year to ensure compliance with continuing professional education requirements.
- Update internal audit processes, policy manuals, and EWP templates to ensure compliance with applicable auditing standards.
- Participate in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum (SAIAF) quarterly meetings, to stay informed of current practices and activities relating to the internal audit profession.
- Participate in executive and senior management team meetings and workgroups in an advisory capacity to provide management with technical assistance in a variety of areas, and serve as an available resource on risk-related issues and attended training for various agency processes

Additional areas that ranked high, which were not included in the fiscal year 2015 audit plan are listed below:

1. Financial Services, Accounting
2. Financial Services, Accounts Receivable
3. Financial Services, Budget

VII. External Audit Services Procured in Fiscal Year 2014

The Internal Audit Division did not procure external audit services in fiscal year 2014.

VIII. Reporting Suspected Fraud and Abuse

TDA has taken the following actions to implement the requirements of:

- Fraud Reporting. General Appropriations Act, Article IX, Section 7.10 (82nd Legislature)

The TDA Fraud Prevention Program includes information about reporting money that may have been lost, misappropriated, or misused, or other fraudulent or unlawful conduct involving any money received from the state to the state auditor. The TDA posted the following information on the Contact Us link on the home page of the agency's website:

Fraud Prevention Program

The purpose of the TDA Fraud Prevention Program is to establish and coordinate an agency wide program to prevent, detect and investigate fraud, illegal use and abuse of state resources by TDA employees, vendors or contractors.

Fraud@TexasAgriculture.gov

(512) 475-3423 or 1-866-5-FRAUD-4 (1-866-537-2834)

Report suspected fraud involving state funds to:

[State Auditor's Office Website for Fraud Reporting](#)

Telephone hotline: 1-800-TX-AUDIT

- Reporting Requirements. Texas Government Code, Section 321.022

The TDA Fraud Prevention Program includes the requirements of this Section. The Fraud Prevention Coordinator and Ethics Officer are responsible for investigating all reported incidents of suspected or actual fraud, illegal use or abuse of State resources. If an investigation concludes there is reasonable cause to believe that inappropriate actions have occurred, a report is issued to the Chief of Staff. The Chief of Staff and the Deputy Commissioner will report the reasons and basis for the belief to the State Auditor.

Internal Audit coordinates with the Fraud Prevention Coordinator and Ethics Officer to ensure all State Auditor's Office (SAO) fraud website or hotline referrals transferred from the SAO to Internal Audit are handled appropriately. Internal Audit will report the results of the investigation back to the SAO and work to resolve any issues.